



CHAM Lessons from the Field

A Series of Asset Manager Interviews Conducted by Elaine Magil, TCAM/MRI

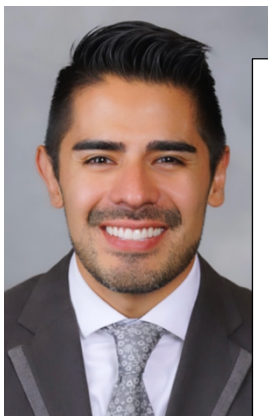
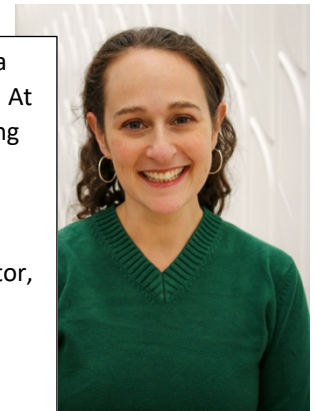
The Asset & Property Management Interface, with Emmanuel Arellano of the San Diego Housing Commission

Elaine Magil recently spoke with Emmanuel Arellano, Vice President of Asset Management at the San Diego Housing Commission, about his department's evolution over the last few years as the Commission built up its Asset Management capacity. Their conversation covered many topics -- collaboration with Property Management, some pros and cons of locating Asset Managers by region, data systems technology, and the role of Development -- all issues faced by asset managers on a regular basis. The interview offers some key lessons learned as the department developed and highlights tips that will help asset management teams in any setting.

The San Diego Housing Commission is a public housing agency that collaborates with developers to create and preserve affordable rental housing units, with more than 1,000 units completed and 2,900 units pending completion in Fiscal Year 2020; and including SDHC's nonprofit affiliate, owns and/or manages more than 3,700 affordable rental housing units in the City of San Diego.

Elaine Magil is the Director of the Advisory & Transactions practice at TCAM, an MRI company, a leading provider of asset management and consulting services to the affordable housing industry. At TCAM, Elaine is responsible for dozens of consulting projects, working with state and local housing agencies, large housing authorities, capital providers, and housing developers. She also leads TCAM's third-party underwriting work in support of property acquisitions, valuations, and dispositions, including on unrestricted ("naturally occurring") affordable housing and Year 15 investor exits. Prior to joining TCAM, Ms. Magil was a Senior Associate at a national LIHTC syndicator, and previously worked in program management as well as direct client service at community development not-for-profit agencies.

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As the San Diego Housing Commission's (SDHC) Vice President of Asset Management, Emmanuel Arellano oversees the financial, operational and compliance performance of the assets within SDHC's real estate portfolio. He also serves as the Vice President of Asset Management for SDHC's nonprofit affiliate, Housing Development Partners. Emmanuel has extensive experience in SDHC real estate programs, including previous positions as Director of Portfolio Management, Asset Manager, Senior Program Analyst, and Program Analyst. Prior to joining SDHC in 2009, he worked for Bank of America in the Consumer Retail Division for over six years. Emmanuel holds a master's degree in Executive Leadership from the University of San Diego (USD) and master's degree in Business Administration from San Diego State University (SDSU).

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Elaine Magil: SDHC has been really intentional in building the interface between Asset Management (AM) and Property Management (PM), which can be a point of friction at a lot of places. Can you talk a bit about how that process has evolved?

Emmanuel Arellano: Remember that PM has been a discipline for decades, whereas AM is a relatively newer field. So people were just initially less familiar. It presented a challenge where some Property Managers, who maybe had been in their field or their position for a long time, weren't used to having some third party come ask questions about their work. The challenge was really just about getting Property Managers to see the value of AM as a partner and an ally rather than just as some external person questioning their work. We were able instead to demonstrate the value of Asset Managers by asking questions but also by showing the context, the "why" of those questions. It's about helping to connect the dots to the larger agency's needs. So maybe it starts as "we need to manage expenses and improve NOI," but we have to also make clear how doing that work then helps the overall agency's ability to fund all these great programs that we do. The AM group is also 'living in the future.' So for instance, AM has a sense of the next 6 months' timeline and can help PM see the plan for what's coming and how PM's work impacts that bigger context.

EM: Is there any struggle over how much the PM job requires people to handle so many urgent things that pull so much attention, and maybe Asset Managers don't realize what Property Managers are dealing with?

EA: We divided the portfolio into 4 regions and moved one of our Asset Managers into each region. This helped them see the reality of what PM is doing, of what goes on at the properties. It also led Asset Managers to be more likely to say, "I'll take care of this for you," to their PM colleagues, because they saw more clearly how many tasks the PM side was already handling. Just being in the same office really combatted the 'us versus them' feelings. The communication is easier and better now, and that just goes such a long way.

EM: Have there been any downsides to decentralizing the AM team?

EA: We just had to be a bit more intentional about making AM feel like a cohesive team, since we're not all in the same place every day. We also have to be deliberate about checking that policies and practices are consistent across regions.

Lots of organizations think about whether to centralize AM as a team in the main office or to station Asset Managers in regions with their portfolios. There's pros and cons to both, but decentralizing did help SDHC build better rapport and cohesion between the AM and PM teams.

EM: SDHC has devoted a lot of time over the past few years towards building up AM. Do you have any advice for organizations that might be planning to build up their own AM capacity?

EA: The best thing to do first is to make sure that all the stakeholders are aware of the existence of and the role of AM. We touch every aspect of the asset, so we have to make sure the Asset Managers and everyone else thinks of AM like the owner's representative: At the end of the day, it's *my* responsibility to solve problems or answer any questions. So make sure that that level of ownership is clear to everyone.

We started small, but honestly, the scope of the AM team's work has grown as we've gotten better and become more familiar to everyone, so now we're sort of the default department where everyone comes to us with every kind of problem. It's a lot of work, but in the end, I'm glad. I like that we're kept aware of everything, and we can sort of farm out or push back where needed. But it's really consistent with that idea of being the owner's rep: You need to know everything.

EM: Were there any early or big wins for AM?

EA: We decided early on to pick a few areas of focus. One thing we chose was to focus on the physical side of the assets, and the Asset Managers would go out to on-site inspections with

PM. We really got into the weeds on things like curb appeal. Later, we could do a lot of 'before & after' photos to really show the impact and give the PM team pride of ownership.

Where there is resistance or lack of buy-in from staff to any new person or team (including AM), it can help to demonstrate the depth of knowledge or insight that the new people bring. Showing real examples of what they bring to the table can help combat existing staff feeling like the new people are unnecessary or that they're intruding on an established way of doing things.

This all ended up being such a great collaboration between AM and PM. For instance, when they did site inspections together, they could see that each of them noticed different things. So it helped build appreciation for each other's base of knowledge and competence. Looking back, starting with a focus on improving the physical asset was also great because it produced this

really visible really obvious improvement, in a way that improving compliance or cash flow wouldn't have done.

EM: Has there been anything that you've found to actually be harder than you expected?

EA: As we've gotten more involved in contract management and vendor management, we've found that those areas aren't in everyone's skillset. Sometimes we have had to seek some training or ask other people for some guidance on some of that. But the goal is that AM will own contract management, and then PMs will do vendor management, based on executed contracts.

Our data systems journey has also been a bit harder than we'd anticipated. We've found that the best case is to have someone on your team who knows AM but can also speak IT. I can envision what I need, but it's hard to get the system to present it that way; there's some translating that needs to happen around getting to the end point we have in mind. I recognize that any new technology is going to have a learning curve, though. We also started using Tableau for data visualization.

EM: Do you have any big lessons learned from your experiences that could apply for other organizations?

EA: In new developments and acquisitions, we always ask, "What's the right time to involve AM?" We used to say "at stabilization," but we've now been invited to get involved and view pro formas earlier, even when there's an acquisition just under discussion. We weigh in on whether it's a good project to pursue



Via Las Cumbres

from the AM perspective. We've been able to show the Development side that AM can provide a lot of insights by being involved early on. It also helps that AM and Development now report to the same Senior Vice President, so we're sort of side-by-side organizationally as well.

This started with some Development colleagues just asking me, as the Vice President of AM, to be involved. Over time, I'd loop in my team, so it was never suddenly a bunch of unfamiliar people showing up to discuss a deal. We also focused our involvement on the things we're best equipped to be experts on. So even if we might have input on something like a cap rate, instead we're much more focused on operating budgets, especially looking at that Year 1 operating budget to see whether it's reasonable and realistic.